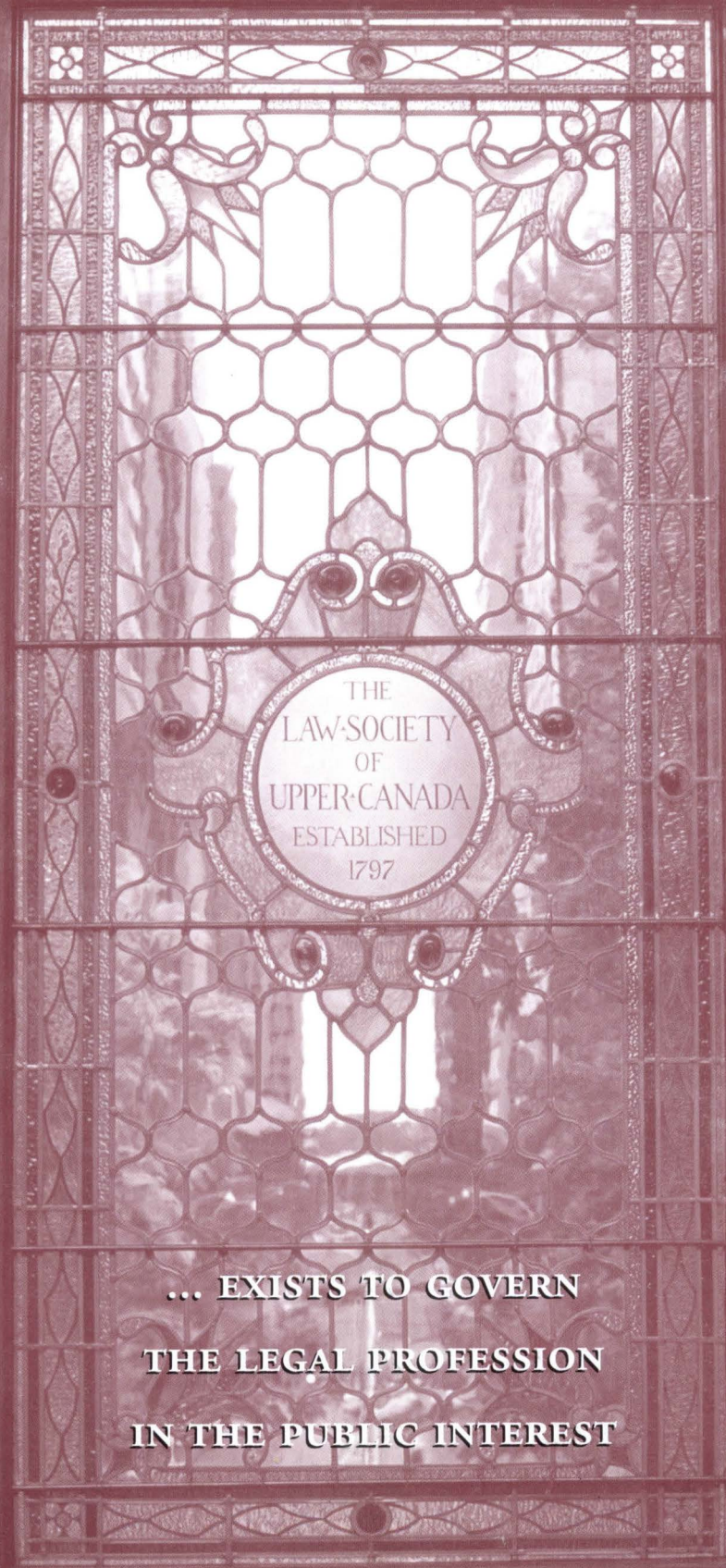


Annual Report

2002 Financial Highlights



... EXISTS TO GOVERN
THE LEGAL PROFESSION
IN THE PUBLIC INTEREST

ANNUAL GENERAL MEETING, 2003

WEDNESDAY, MAY 7, 2003

OSGOODE HALL, TORONTO

ORDER OF BUSINESS

Minutes of the previous annual general meeting

Report of the work of the Society and
the committees of the Society and Convocation

Presentation of the audited financial statements

Matters of professional interest that are directly related
to the work of the Society

Motions (no motions were submitted by members of the profession)

2-14

GENERAL FUND

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

15-21

**LAWYERS FUND FOR
CLIENT COMPENSATION**

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

22-34

**ERRORS AND OMISSIONS
INSURANCE FUND**

*Management Discussion and Analysis,
Auditors' Report, Actuary's Report,
Financial Statements and Notes*

35-44

LIBRARYCO INC.

*Management Discussion and Analysis,
Auditors' Report, Financial Statements
and Notes*

The Society's General Fund comprises its unrestricted fund, funds restricted by Convocation for specific purposes and endowment funds held in trust. Transactions of a capital nature are recorded in the Capital Fund. The Society's annual membership fee is based on the financial requirements of the restricted and unrestricted funds.

STATEMENT OF REVENUES AND EXPENSES

The Statement of Revenues and Expenses presents the results of the Society's unrestricted and restricted operations. The unrestricted fund ended the year with a surplus of \$4.7 million.

Membership fees

Membership fees for 2002 are approximately \$691,000 below 2001 as a result of a 7% reduction in the annual membership fee offset by an increase in membership numbers.

Bar admission course revenues and expenses

Bar admission course revenues declined by \$1.7 million from 2001 and expenses declined by \$1.5 million with the end of the double cohort of students enrolled in the program.

Professional development and competence expenses

Professional development and competence expenses increased by \$625,000 in 2002 due to a 38% increase in attendance at continuing legal education (CLE) related activities. This is offset by the increase in CLE revenues for 2002 of \$1.1 million over 2001.

Other income

Other income decreased by \$2.2 million, \$1.3 million of which was as a result of Law Foundation of Ontario grants for County and District Libraries now being collected directly by LibraryCo Inc. Other declines include lower revenues from the Lawyer Referral Service, catering, events, equity, library and certification.

Investment income

Investment income increased by \$202,000 in 2002. Revenues from the Errors and Omissions Fund increased by \$600,000 offset by a decline of \$412,000 in the Society's investments reflecting lower short-term investment yields.

Professional regulation expenses

Professional regulation expenses declined by \$573,000 in 2002 compared to 2001 primarily as a result of extraordinary litigation expenses in 2001.

Other expenses

Other expenses increased by \$820,000 in 2002 as the provisions for doubtful accounts receivable and contingencies were increased.

Facilities expenses

Facilities expenditures for 2002 increased by \$592,000 from 2001 as related to the additional costs of providing security, accelerated repairs and maintenance at Osgoode Hall and increased utility costs.

GENERAL FUND

BALANCE SHEET

Cash and investments

The Society's general fund balance sheet continues to strengthen as its policy of maintaining a two-month working capital reserve increases the Society's cash position. In addition, there was a significant increase (\$2.6 million) in future year's membership fees paid prior to December 31, 2002. Cash and investments at the end of 2002 stand at approximately \$24.9 million, up from \$17.7 million in 2001. The Society's general fund investments are invested in high quality products of less than one year duration. The portfolio is currently invested in approximately 70% bankers acceptances and 30% Government of Canada treasury bills and cash.

Capital assets

The Society's capital assets are primarily composed of its buildings and major computer equipment. Capital assets are amortized over their useful lives for periods between three and thirty years. Capital asset additions are primarily financed through the Capital Fund by means of an annual capital levy on the membership. For 2002, this levy was set at \$75 per member, unchanged from 2001.

Deferred revenue

The significant increase in deferred revenue over 2001 is related almost entirely to annual membership fees. \$4.3 million of 2003 membership fees were collected prior to December 31, 2002 compared to \$1.7 million of 2002 membership fees collected prior to December 31, 2001.

Unclaimed trusts

Appearing on the balance sheet for the first time are amounts related to members transferring their unclaimed trust balances to the Society according to the terms of the *Law Society Act*. The Society holds and administers these funds in perpetuity, with the net income from the fund transferred to the Law Foundation of Ontario on an annual basis.

Fund balances

The accumulated fund balances increased by \$3.8 million to \$32.3 million in 2002 as the Working Capital Reserve and the Capital Fund were increased by transfers from the surplus.

Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA,

We have audited the balance sheet of THE LAW SOCIETY OF UPPER CANADA – GENERAL FUND as at December 31, 2002 and the statements of revenues and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the General Fund as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The 2001 comparative figures were audited by another firm of chartered accountants.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario

February 14, 2003

GENERAL FUND

Balance Sheet

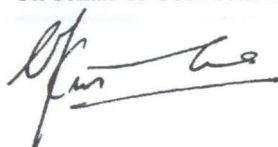
Stated in thousands of dollars

As at December 31

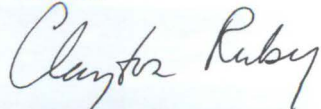
	2002	2001
ASSETS		
Current Assets		
Cash and short-term investments	24,928	17,718
Accounts receivable (note 3)	1,952	1,560
Prepaid expenses	173	212
Total current assets	27,053	19,490
Capital assets (note 4)	17,345	17,408
Total Assets	44,398	36,898
LIABILITIES AND FUND BALANCES		
Current Liabilities		
Accounts payable and accrued liabilities (note 5)	7,138	6,401
Deferred revenue	4,514	1,957
Total current liabilities	11,652	8,358
Unclaimed trust funds (note 6)	435	—
Total Liabilities	12,087	8,358
FUND BALANCES		
Unrestricted fund	—	3,959
Restricted funds		
Working capital reserve	7,975	3,258
County libraries	553	333
Capital	5,543	2,492
Invested in capital assets	17,345	17,408
Technology enhanced learning	62	139
Repayable allowances	338	445
Endowment funds	495	506
Restricted funds	32,311	24,581
Total Fund Balances	32,311	28,540
Total Liabilities and Fund Balances	44,398	36,898

See accompanying notes

On behalf of Convocation



Treasurer



Chair of Finance and Audit Committee

Financial Statements

Financial Statements

Statement of Revenues and Expenses

Stated in thousands of dollars

Year ended December 31

	2002			2001
	Unrestricted Fund	Restricted Funds	Total	Total
REVENUES				
Membership fees	27,981	7,757	35,738	36,429
Bar admission course	8,372	—	8,372	10,082
Continuing legal education	3,103	—	3,103	2,016
Other (note 7)	4,535	—	4,535	6,700
Investment income	3,336	14	3,350	3,148
Total revenues	47,327	7,771	55,098	58,375
EXPENSES				
Professional regulation	8,340	—	8,340	8,913
Administrative	7,255	—	7,255	6,971
Bar admission course	6,348	—	6,348	7,918
Professional development and competence	5,470	—	5,470	4,845
Other (note 8)	5,435	—	5,435	4,615
Client service centre	3,137	—	3,137	3,070
Facilities	2,883	—	2,883	2,291
Great library	2,827	—	2,827	2,611
Policy and legal services	2,092	—	2,092	1,897
Communications	1,238	—	1,238	1,020
Equity	752	—	752	850
County libraries	—	5,408	5,408	8,394
Capital	—	1,264	1,264	696
Capital assets amortization	—	1,698	1,698	2,147
Technology enhanced learning	—	77	77	171
Repayable allowances	—	209	209	96
Endowment funds	—	23	23	6
Total expenses	45,777	8,679	54,456	56,511
Less: Expenses Allocated to Lawyers Fund for				
Client Compensation (note 1)	3,129	—	3,129	3,585
Net expenses	42,648	8,679	51,327	52,926
Surplus (deficit)	4,679	(908)	3,771	5,449

See accompanying notes

Statement of Changes in Fund Balances

Stated in thousands of dollars

Year Ended December 31

	2002										2001
	RESTRICTED FUNDS										
	Unrestricted Fund	Working Capital Reserve	County Libraries	Capital	Invested in Capital Assets	Technology Enhanced Learning	Repayable Allowances	Endowment Funds	Total Restricted Funds	Total	Total
Fund balances, beginning of year	3,959	3,258	333	2,492	17,408	139	445	506	24,581	28,540	23,091
Revenues	47,327	—	5,628	2,029	—	—	102	12	7,771	55,098	58,375
Expenses	42,648	—	5,408	1,264	1,698	77	209	23	8,679	51,327	52,926
Surplus (Deficit)	4,679	—	220	765	(1,698)	(77)	(107)	(11)	(908)	3,771	5,449
Interfund transfers											
Transfer to capital fund	(3,921)	—	—	3,921	—	—	—	—	3,921	—	—
Asset capitalization	—	—	—	(1,635)	1,635	—	—	—	—	—	—
Transfer to working capital reserve	(4,717)	4,717	—	—	—	—	—	—	4,717	—	—
Total interfund transfers	(8,638)	4,717	—	2,286	1,635	—	—	—	8,638	—	—
Fund balances, end of year	—	7,975	553	5,543	17,345	62	338	495	32,311	32,311	28,540

See accompanying notes

GENERAL FUND

Financial Statements



Financial Statements

Statement of Cash Flows

Stated in thousands of dollars

Year ended December 31

	2002	2001
OPERATING ACTIVITIES		
General fund surplus	3,771	5,449
Item not affecting cash:		
Amortization of capital assets	1,698	2,147
Other operating sources (uses) of cash:		
Accounts receivable	(392)	325
Prepaid expenses	39	64
Accounts payable and accrued liabilities	737	1,080
Deferred revenue	2,557	(1,956)
Fund contribution – unclaimed trusts	435	–
Total operating activities	8,845	7,109
INVESTING ACTIVITY		
Capital asset additions	(1,635)	(1,829)
Net increase in cash and short-term investments during the year	7,210	5,280
Cash and short-term investments, beginning of year	17,718	12,438
Cash and short-term investments, end of year	24,928	17,718

See accompanying notes

Notes to Financial Statements

For the year ended December 31, 2002

(Stated in whole dollars except where indicated)

1. Description of Fund

The Law Society of Upper Canada (the "Society") was founded in 1797 and was incorporated in 1822 with the enactment of the *Law Society Act*. The Society exists to govern the legal profession in the public interest. This is achieved by ensuring that the people of Ontario are served by lawyers who meet high standards of learning, competence and professional conduct and by upholding the independence, integrity and honour of the legal profession, for the purpose of advancing the cause of justice and the rule of law. The governing body of the Society, which is known as Convocation, carries out this mandate.

The *Law Society Amendment Act 1998* received royal assent in December 1998 and came into force on February 1, 1999. This Act makes substantive and important amendments to the *Law Society Act*, including a restructuring scheme of professional governance based on the authority in the statute. The *Law Society Amendment Act, 1998*, authorizes the Society to make regulations, by-laws and rules of practice and procedure as a means of governing all proceedings described in the Act.

The Society is not subject to income or capital taxes because it is a not-for-profit corporation. These financial statements represent the financial position and operations of the Law Society of Upper Canada - General Fund, which includes certain internally restricted funds, and do not purport to represent all assets and liabilities under the control of the Society.

Separate financial statements have been prepared for the following related entities, which have not been consolidated into the General Fund statements:

Lawyers Fund for Client Compensation

The Society maintains the Lawyers Fund for Client Compensation ("Compensation Fund") pursuant to section 51 of the *Law Society Act* to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was or is a trustee. Members' annual fees and investment income finance the Compensation Fund. The Compensation Fund reports fees collected by the General Fund as revenues. The Compensation Fund reimburses the General Fund for certain administrative expenses, spot audit expenses and a portion of the costs of operating the investigation and discipline functions of the Society. These amounted in 2002 to \$3,129,000 (2001 – \$3,585,000).

Errors & Omissions Insurance Fund and Lawyers' Professional Indemnity Company

The Society provides professional liability insurance to the legal profession through the Errors and Omissions Insurance Fund ("E&O Fund") and the Lawyers' Professional Indemnity Company ("LAWPRO"). The E&O Fund was originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investment. Prior to July 1, 1990 various insurance carriers underwrote the Errors and Omissions Insurance program. LAWPRO took over underwriting the program commencing July 1, 1990. LAWPRO, a wholly owned subsidiary of the Society, was incorporated in 1990 and is licensed to provide lawyer's professional liability and title insurance. On an annual basis the E&O

Fund provides the General Fund with income derived from its surplus earnings. This income, reported as Investment Income of the General Fund, amounted in 2002 to \$2,600,000 (2001 – \$2,000,000).

LibraryCo Inc.

LibraryCo Inc. is a wholly owned, not-for-profit subsidiary of the Society. LibraryCo Inc. was originally incorporated under the *Business Corporations Act* of Ontario on December 20, 2000 and was succeeded by another corporation of the same name on April 12, 2001. The Corporation issued 100 voting Common Shares to the Society for \$100 and 100 Special Shares to the County and District Law Presidents' Association for \$100. The holders of the Special Shares are entitled to elect one director.

The Society levies and collects funds for county and district law library purposes. Convocation internally restricts these funds for use by these law libraries to carry out their annual operations and any special projects approved by Convocation. LibraryCo Inc. was established to administer this funding on behalf of the Society and to develop policies, procedures, guidelines and standards for the delivery of county law library services across Ontario.

Law Society Foundation

The Law Society Foundation ("LSF"), a registered charity, was incorporated by Letters Patent in October 1962. The objects of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to law students in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, to maintain a collection of gifts of books and other written material for use by educational institutions in Canada and to receive donations, and maintain a fund for the relief of poverty by providing meals to persons in need. The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF.

The Law Foundation of Ontario

The Law Foundation of Ontario ("LFO") was created to receive interest accruing on monies held in lawyers' mixed trust accounts and to establish and maintain a fund to be used for the purposes of legal education and legal research, legal aid and the establishment, maintenance and operation of law libraries. During 2002, the LFO contributed to the General Fund of the Society \$1,300,000 (2001 – \$1,300,000) for the operation of the bar admission course and \$45,000 (2001 – \$45,000) for legal heritage programs.

2. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants using the restricted fund method of reporting revenues.

Description of funds

The *Unrestricted Fund* accounts for the Society's program delivery and administrative activities. This fund reports unrestricted resources.

The *Working Capital Reserve* is maintained to ensure adequate cash reserves for the continuous financing of the Society's operations. This fund is internally restricted by Convocation and its balance is sufficient to provide for the Society's operating expenses for up to two months. As at December 31, 2002 the balance is \$7,975,000. (2001 – \$3,258,000).

The *County Libraries Fund* accumulates funds raised by the Society for county library purposes and these funds are accounted for as a Restricted Fund of the Society. The Society remits amounts to LibraryCo Inc. on a predetermined basis. On an annual basis, amounts collected that exceed the current year requirements are held by the Society and accounted for in the fund balance. This fund balance is available to reduce the amount levied on the membership in future years. At December 31, 2002 the fund balance was \$553,000 (2001 – \$333,000). Of this amount, \$333,000 will be used to reduce the amount levied on the membership in 2003.

The *Capital Fund* reports funds that have been internally restricted by Convocation for the purposes of undertaking capital and technological acquisitions and improvements. On an annual basis, capital projects at Osgoode Hall and other Society facilities are budgeted along with technological acquisitions and improvements. Funding is raised through a levy on the membership.

All acquisitions, amortization and other expenditures relating to capital assets are reported in the *Invested in Capital Assets Fund*.

The *Technology Enhanced Learning Fund* reports resources set aside for development and implementation of assistive technology for the Bar Admission Course. This fund is internally restricted by Convocation.

The *Repayable Allowances Fund* was established by Convocation in 2001. On an annual basis, funding is provided through the membership fee. The program provides students with funding for tuition and living expenses and is based on a student’s ability to repay the grant within a specified period of time following the student’s non-participation in the Bar Admission Course. A staff committee reviews and decides on applications according to guidelines set out by Convocation.

The Society administers two *Endowment Funds*. The Law Society Trust was established in accordance with the terms of the endowment so that the Society can award prizes, bursaries and gifts to deserving students in the Bar Admission Course. The J. Shirley Denison Fund was established to provide relief and assistance to members and former members who find themselves in difficult financial circumstances. Contributions for endowment are recognized as revenue in the Endowment Funds. For 2002, no funds were contributed for endowment purposes.

Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society’s investment policy. Short-term investments are stated at the lower of cost and market value. Investment income, except income earned on resources held for endowment, is retained in and reported by the Unrestricted Fund.

Capital assets

Land, buildings, major building improvements, furniture, equipment and computer hardware and software are presented at cost net of accumulated amortization and grants. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building improvements	3 to 10 years
Furniture, equipment and computer hardware and software	3 to 5 years

Revenue recognition

Restricted contributions related to the general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as

Financial Statements

revenue of the appropriate restricted fund. Unrestricted contributions are recognized as revenue of the Unrestricted Fund in the year received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Collections

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items.

Volunteer services

The work of the Society is dependent on the voluntary services of the elected Benchers and other members of the profession. These services are received gratuitously, therefore, no value has been included in these financial statements.

Financial instruments

The estimated fair values of cash and short-term investments, accounts receivable, prepaid expenses, accounts payable, accrued liabilities and deferred revenue approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

Measurement uncertainty

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Accounts Receivable

Included in accounts receivable are certain amounts receivable from related parties as follows:

	2002	2001
Lawyers Fund for Client Compensation	741,558	141,406
LibraryCo Inc.	82,883	-
The Law Society Foundation	-	13,864
The Law Foundation of Ontario	357,900	601,053
Lawyers' Professional Indemnity Company	17,200	9,703
	1,199,541	766,026

GENERAL FUND

Financial Statements

4. Capital Assets

As at December 31, 2002

(\$000's)	Cost	Accumulated Amortization	Net
Land and buildings	27,946	15,472	12,474
Building improvements	5,466	1,680	3,786
Furniture, equipment and computer hardware and software	2,937	1,852	1,085
	36,349	19,004	17,345

As at December 31, 2001

(\$000's)	Cost	Accumulated Amortization	Net
Land and buildings	27,946	14,882	13,064
Building improvements	4,091	1,458	2,633
Furniture, equipment and computer hardware and software	8,425	6,714	1,711
	40,462	23,054	17,408

5. Accounts Payable

Included in accounts payable is an amount of \$4,475 (2001 - \$0) payable to the Law Society Foundation.

6. Unclaimed Trust Funds

Section 59.6 of the *Law Society Act* permits a member who has held money in trust for or on account of a person for a period of at least two years to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the money. Subject to certain provisions in the Act which enable the Society to recover its expenses associated with maintaining these funds, all income from the money held in trust shall be paid to the Law Foundation of Ontario. Money held in trust amounts to \$435,000 (2001 - \$0).

7. Other Revenue

Included in other revenue is income from the Ontario Reports, catering, the Lawyer Referral Service, specialist certification and other miscellaneous revenues.

8. Other Expenses

Included in other expenses are payments to the Federation of Law Societies, County and District Law Presidents' Association, insurance, professional fees, governance related disbursements, termination payments, and other corporate expenses.

9. Pension Plan

The Society maintains a defined contribution plan for all eligible employees of the Society. The Society matches its employees' contributions to the plan. The Society's General Fund pension expense in 2002 amounted to \$800,359 (2001 – \$714,069).

10. Commitments

The Society is committed to monthly lease payments for property and equipment under leases having various terms up to the end of April 2005. Aggregate minimum monthly payments over the next three years are as follows:

Year	\$000's
2003	321
2004	338
2005	118
Total	777

11. Contingent Liabilities

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Management is of the opinion that based on the information presently available, it is unlikely that any liability, to the extent not covered by insurance, would be material to the Society's financial position.

12. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

LAWYERS FUND FOR CLIENT COMPENSATION

The Lawyers Fund for Client Compensation has enjoyed a second consecutive year of moderate claims against the Fund. This has contributed to an increase of \$1.3 million in the Fund's year end balance from \$13.6 million to \$14.9 million.

STATEMENT OF REVENUES AND EXPENSES AND CHANGE IN FUND BALANCE

Revenues

Membership fees

The Compensation Fund's claim experience in recent years has permitted a decrease in membership fees which declined from \$379 per member in 2001 to \$290 per member in 2002.

Investment income

The Compensation Fund's investment income in 2002 was reduced by relatively low rates of return on fixed income investments and continued weakness in the equity markets. The latter lead to a provision of \$320,000 for a decline in the value of equity investments. Total investment income declined to \$542,000 from \$1.3 million in 2001.

Expenses

Net grants

Grants expense increased from \$1.4 million to \$2.8 million in 2002 largely as a result of an increase in the average claim size and subsequent grants recommended.

Other expenses

The Compensation Fund's operating expenses are in line with 2001 with the exception of insurance for excess claims coverage. For 2002, coverage was reduced with a reduction in premium.

BALANCE SHEET

Cash and short-term investments

The Compensation Fund's balance sheet continues to strengthen after revenues exceeded expenses for the second year. Cash and short-term investments increased by \$3.1 million to \$12.2 million due to the surplus and lower actual grants paid. The Compensation Fund's short-term investments are invested in bankers acceptances, Government of Canada treasury bills and cash.

Portfolio investments

The Compensation Fund's portfolio investments of \$13.9 million are invested in high quality fixed income and equity products with a long-term investment horizon.

Accounts payable and accrued liabilities

The Compensation Fund's accounts payable and accrued liabilities have increased by approximately \$568,000 over 2001 due to the timing of transfers between Compensation Fund and the Law Society's General fund.

Reserve for unpaid grants

The Reserve for unpaid grants has increased by \$1.5 million to \$10.7 million because of claims patterns. Claims incurred in 2002 were \$2.6 million (2001: \$1.9 million) and grants paid were \$1.3 million (2001: \$2.7 million). Processing volumes have been reasonably consistent with variations in mix of claims leading to lower overall payments during the year.

Fund balance

The Fund Balance stands at \$14.9 million (2001: \$13.6 million) benefiting from the results of operations and from incurred claims being below claims budgeted when membership fees were set.

Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA,

We have audited the balance sheet of THE LAW SOCIETY OF UPPER CANADA – LAWYERS FUND FOR CLIENT COMPENSATION as at December 31, 2002 and the statements of revenues and expenses and changes in fund balance and of cash flows for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The 2001 comparative figures were audited by another firm of chartered accountants.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario

February 14, 2003

Balance Sheet

Stated in thousands of dollars

As at December 31

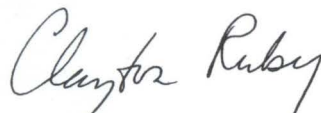
	2002	2001
ASSETS		
Current Assets		
Cash and short-term investments	12,230	9,104
Interest and other receivables	150	145
Total Current Assets	12,380	9,249
Portfolio investments		
(market value – \$14,291; 2001 – \$14,171)	13,973	13,744
Total Assets	26,353	22,993
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities (<i>note 4</i>)	744	176
Reserve for unpaid grants	10,681	9,202
Total Liabilities	11,425	9,378
Fund Balance	14,928	13,615
Total Liabilities and Fund Balance	26,353	22,993

See accompanying notes

On behalf of Convocation



Treasurer



Chair of Finance and Audit Committee

Financial Statements

Financial Statements

Statement of Revenues and Expenses and Change in Fund Balance

Stated in thousands of dollars

Year ended December 31

	2002	2001
REVENUES		
Membership fees	7,847	10,052
Investment income	542	1,267
Total revenues	8,389	11,319
EXPENSES		
Grants paid	1,321	2,678
Increase (decrease) in reserve for unpaid grants	1,479	(506)
Recoveries	(30)	(724)
Net grants expense	2,770	1,448
Spot audit	1,565	1,596
Share of investigation and discipline	1,021	1,162
Administrative	667	1,120
Insurance	535	1,190
Salaries and benefits	458	431
Counsel fees	51	68
Referees' and reporters' fees	9	3
Total expenses	7,076	7,018
Surplus	1,313	4,301
Fund balance, beginning of year	13,615	9,314
Fund balance, end of year	14,928	13,615

See accompanying notes

Statement of Cash Flows

Stated in thousands of dollars

Year ended December 31

	2002	2001
OPERATING ACTIVITIES		
Surplus	1,313	4,301
Items not affecting cash:		
Increase (decrease) in reserve for unpaid grants	1,479	(506)
Provision for decline in value of portfolio investments	320	—
Other operating sources (uses) of cash:		
Accounts receivable	(5)	308
Accounts payable and accrued liabilities	568	3
Total operating activities	3,675	4,106
FINANCING ACTIVITY		
Portfolio investments	(549)	(247)
Net increase in cash and short-term investments during the year	3,126	3,859
Cash and short-term investments, beginning of year	9,104	5,245
Cash and short-term investments, end of year	12,230	9,104

See accompanying notes

Notes to Financial Statements

For the year ended December 31, 2002

(Stated in whole dollars except where indicated)

1. Description of Fund

The Lawyers Fund for Client Compensation (the "Fund") is maintained by The Law Society of Upper Canada (the "Society") pursuant to section 51 of the *Law Society Act* to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was or is a trustee. The Fund is financed by members' annual fees and investment income.

The Fund is not subject to income or capital taxes because it is a fund of the Society, a not-for-profit corporation.

Certain services are provided by the General Fund of the Society to the Fund. The Fund reimburses the General Fund for certain administrative expenses, spot audit expenses and a portion of the costs of operating the investigation and discipline functions of the Society. The charges for the year amount to \$3,129,000 (2001 – \$3,585,000).

2. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants, using the restricted fund method of reporting revenues. The Fund accounts for the program delivery, administration and payment of grants from the Fund. The Fund is restricted in use by the *Law Society Act*.

Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society's investment policy. Short-term investments are stated at the lower of cost and market value.

Portfolio investments

Portfolio investments are recorded at cost, net of amortization of premiums and discounts. Investments consist of a diversified portfolio of government bonds, corporate bonds and Canadian and U.S. equities, according to the Society's investment policy. Only if a loss in the value of an investment is other than a temporary decline is the investment written down to recognize the loss.

Grants

Pursuant to section 51(5) of the *Law Society Act*, the payment of grants from the Fund is at the discretion of Convocation, the governing body of the Society. Grants paid are subject to a \$100,000 limit per applicant. A reserve for unpaid grants is recorded as a liability on the balance sheet. This reserve represents an estimate of the present value of grants to be paid for unprocessed claims and the associated administrative costs, as determined by an actuary. The related net grants expense represents grant payments during the year plus the current year experience gain/loss of the reserve for unpaid grants, net of recoveries. The Fund maintained insurance for cumulative claims in excess of \$10,000,000 to a maximum of \$20,000,000. On an annual basis, actuarial valuations are used to determine the appropriate levels of insurance that the Fund purchases.

Financial instruments

The estimated fair values of cash and short-term investments, interest and other receivables and accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

3. Measurement Uncertainty

The valuation of unpaid grants anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimations and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates. No provision has been made for otherwise unforeseen changes to the legal or economic environment in which claims are settled, nor for causes of loss which are not already reflected in the historical data. Management believes that the techniques employed and assumptions made are appropriate and the conclusions reached are reasonable given the information currently available. Estimates of unpaid grants are reviewed at least annually by an actuary and, as adjustments become necessary, they are reflected in current operations.

4. Accounts Payable

Included in accounts payable is an amount due to the Society's General Fund of \$741,558 (2001 – \$141,406).

5. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's financial statement presentation.

COMBINED STATEMENT OF REVENUE AND EXPENSES AND SURPLUS

In 2002, the Errors and Omissions Insurance Fund generated an excess of revenue over expenses of \$20.3 million, an increase of \$5 million from 2001. Total expenses decreased by \$4.3 million in 2002 while revenues remained relatively consistent at \$106 million.

Members' levies

Members' levies increased marginally in 2002 from \$74.8 million to \$75 million. The increase is a combination of two offsetting factors. While the base annual member levy dropped for the Ontario professional liability program by \$100 per lawyer, the number of insured members continued to increase.

Other insurance premiums

Other insurance premiums increased to \$7.8 million in 2002 from \$6.9 million in 2001 as a result of growth in non-mandatory programs including title and excess professional liability insurance.

Reinsurance commissions

LAWPRO earns base commissions on that portion of premium ceded to reinsurers plus additional commissions for profitable results. The increase of almost \$3 million noted in 2002 was due to these profit commissions earned, reflecting positive outcomes on claims reserves of prior years.

Investment income

The Fund generated \$13.4 million of investment income, a decrease of \$3.3 million from the prior year. Typically, over 85% of the investment portfolio consists of debt securities and lower bond yields throughout 2002, as well as fewer opportunities to generate gains, had a detrimental effect on returns. Investment income in 2002 is also net of a \$1.1 million write-down on equity holdings (2001 – \$4.2 million). At year-end, the market value of the portfolio exceeds book value by \$2.2 million (2001 – \$5.7 million).

Net claims and adjustment expenses

The decrease in net claims and adjustment expenses of approximately \$7 million is a result of reductions in reserves of old fund years combined with an actuarially determined revision to the discount rate associated with future payment of claim liabilities.

Reinsurance premiums

The Fund continues to partner with Canadian licensed reinsurers in 2002 and shares risk proportionately from the first dollar of loss in both its Ontario professional liability and title insurance lines of business. Although, the reinsurer's share of the professional liability program remained consistent in 2002 with 2001 at 35%, the cost associated with this reinsurance increased by \$2 million primarily attributable to a general "hardening" of the reinsurance market.

General expenses

The increase in general expenses of \$0.8 million from 2001 levels is attributable to higher occupancy costs associated with the renewal of a lease agreement, increased personnel costs and continued investment in technology.

COMBINED BALANCE SHEET

Investments

Investment assets, inclusive of cash and cash equivalents, increased by \$5.7 million to \$301.8 million at December 31, 2002 a result of cash provided by operations and investment income generated by the portfolio. Investment assets are invested in accordance with investment policy in a diversified, high quality portfolio.

Provision for unpaid claims and adjustment expenses and reinsurer's share of provision

The reinsurer's share of the provision for unpaid claims and adjustment expenses decreased from \$144 million in 2001 to \$133.1 million in 2002. The decline is due to the continued effects of a lower share of the Ontario professional liability program being ceded, declining from 57% in 1995 to 35% in the last two years. The provision for unpaid claims, which represents the amount required to satisfy all obligations to claimants without offset for reinsurance, has decreased from \$329.1 million in 2001 to \$308.5 million in 2002.

Surplus

The surplus has increased by \$20.3 million, the excess of revenue over expenses for the year.

Auditors' Report

TO THE MEMBERS OF THE LAW SOCIETY OF UPPER CANADA

We have audited the combined balance sheet of THE LAW SOCIETY OF UPPER CANADA – ERRORS AND OMISSIONS INSURANCE FUND as at December 31, 2002 and the combined statements of revenue and expenses and surplus and of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
January 31, 2003

Actuary's Report

For Combined Financial Statements at December 31, 2002

ROLE OF THE VALUATION ACTUARY

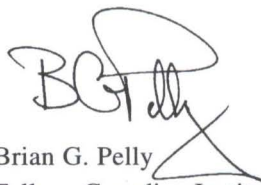
The valuation actuary is appointed by the Audit Committee of the Lawyers' Professional Indemnity Company in its capacity as manager of the Law Society of Upper Canada Errors and Omissions Insurance Fund. With respect to the preparation of these combined financial statements, the actuary is required to carry out a valuation of the claims liabilities and to report thereon to the Audit Committee, and through it to the membership of the Law Society. The valuation is carried out in accordance with accepted actuarial practice, except as specifically disclosed to the contrary, and regulatory requirements. The scope of the valuation encompasses the claims liabilities, that is the provision for unpaid claims and adjustment expenses on claims incurred and reported prior to December 31, 2002, the date of these combined financial statements.

In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Errors and Omissions Insurance Fund, the Lawyers' Professional Indemnity Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates, consequently, the final values may vary significantly from those estimates. The actuary also makes use of management information provided by the Law Society and the Lawyers' Professional Indemnity Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.

VALUATION ACTUARY'S REPORT

I have valued the claims liabilities arising on the errors and omissions insurance coverage arranged by the Law Society of Upper Canada for its Errors and Omissions Insurance Fund combined balance sheet as at December 31, 2002, and their changes in its combined statement of revenue and expenses and surplus for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the claims liabilities makes appropriate provision for all such obligations, and the financial statements fairly present the results of the valuation.



Toronto, Ontario
February 13, 2003

Brian G. Pelly
Fellow, Canadian Institute of Actuaries

Combined Balance Sheet

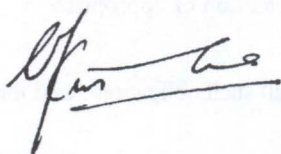
Stated in thousands of dollars

As at December 31

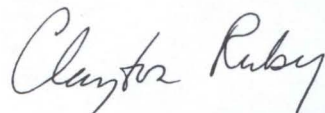
	2002	2001
ASSETS		
Cash and cash equivalents	2,786	8,029
Investments (note 4)	299,016	288,099
Investment income due and accrued	3,273	2,965
Accounts receivable	15,801	12,678
Reinsurers' share of provision for unpaid claims and adjustment expenses (note 6)	133,082	144,028
Other receivables	1,110	1,350
Other assets	134	255
Fixed assets (accumulated depreciation – 4,203; 2001 – 3,599)	1,454	622
Future income taxes (note 2)	4,052	3,355
Total assets	460,708	461,381
LIABILITIES AND SURPLUS		
Provision for unpaid claims and adjustment expenses (notes 3 and 6)	308,520	329,118
Premium stabilization fund (note 8)	25,831	26,603
Accounts payable and accrued liabilities	12,497	12,147
Surplus (note 5)	113,860	93,513
Total liabilities and surplus	460,708	461,381

See accompanying notes

On behalf of Convocation:



Treasurer



Chair of Finance and Audit Committee

ERRORS AND OMISSIONS INSURANCE FUND

Combined Statement of Revenue and Expenses and Surplus

Stated in thousands of dollars

Year Ended December 31	2002	2001
REVENUE		
Members' levies, mandatory insurance program (notes 7 and 8)	75,014	74,835
Other insurance premiums	7,773	6,945
Reinsurance commissions	10,343	7,389
Investment income	13,444	16,731
Total revenue	106,574	105,900
EXPENSES		
Net claims and adjustment expenses (notes 3 and 6)	32,927	39,897
Reinsurance premiums	31,520	29,558
General expenses	10,812	10,014
Transfer to Law Society General Fund (note 9)	2,600	2,000
Premium taxes	2,498	2,469
Provision for income taxes (note 2)	5,870	6,630
Total expenses	86,227	90,568
Excess of revenue over expenses	20,347	15,332
Surplus, beginning of year	93,513	78,181
Surplus, end of year	113,860	93,513

See accompanying notes

Financial Statements

Financial Statements

Combined Statement of Cash Flows

Stated in thousands of dollars

Year Ended December 31

	2002	2001
OPERATING ACTIVITIES		
Excess of revenue over expenses	20,347	15,332
Items not affecting cash:		
Depreciation	605	494
Future income taxes	(697)	1,378
Realized gains	(646)	(2,036)
Amortization of discount on bonds	(1,262)	(293)
	18,347	14,875
Other operating sources (uses) of cash:		
Investment income due and accrued	(308)	25
Amounts receivable and other assets	(2,762)	3,402
Reinsurers' share of provision for unpaid claims and adjustment expenses	10,946	15,775
Provision for unpaid claims and adjustment expenses	(20,598)	(12,043)
Premium stabilization fund	(772)	733
Accounts payable and accrued liabilities	350	1,589
Total funds provided by operating activities	5,203	24,356
INVESTING ACTIVITIES		
Fixed assets:		
Purchase of fixed assets	(1,437)	(318)
Investments:		
Purchases of investments	(189,092)	(313,595)
Proceeds of sale of investments	180,083	293,207
Investment purchases, net	(9,009)	(20,388)
Net change in cash and cash equivalents	(5,243)	3,650
Cash and cash equivalents, beginning of year	8,029	4,379
Cash and cash equivalents, end of year	2,786	8,029

See accompanying notes

Notes to Combined Financial Statements

For the year ended December 31, 2002

(Stated in whole dollars except where indicated)

1. The Insurance Program and its Risk Retention and Reinsurance Structure

The combined financial statements of the Errors and Omissions Insurance Fund account for the net results of the professional liability insurance program of the Law Society of Upper Canada ("the Society"). The program requires practising members to pay annual levies to fund the anticipated costs of professional liability claims made in each annual policy period. Indemnification of members is subject to the terms of the insurance policy, including financial limits per claim and aggregate limits per member in each policy period.

These financial statements combine the results of operations, financial positions and cash flows of:

- the Errors and Omissions Insurance Fund of the Society ("the Fund"), the fund originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investments; and
- Lawyers' Professional Indemnity Company ("LAWPRO"), a wholly owned subsidiary of the Society that was incorporated in 1990 as an insurance company and is licensed to provide lawyers' professional liability and title insurance.

The risk retention and reinsurance structures employed through these two entities are described in the following paragraphs.

Prior to July 1, 1990, the Society's Errors and Omissions Insurance Program was underwritten by various insurance carriers subject to a policy deductible. LAWPRO took over the underwriting of the program commencing July 1, 1990. The Society maintained financial responsibility for the policy deductible through to December 31, 1994. The policy deductible was a combination of a group deductible and the individual member deductibles. For the periods noted below, the combined policy deductibles were as follows:

July 1989 to June 1990	\$ 250,000 per occurrence
July 1990 to December 1991	\$ 200,000 per occurrence
January 1992 to December 1994	\$ 250,000 per occurrence

The Society was not able to arrange Stop Loss reinsurance on its group deductible after the policy period ending June 1989. As a result, the full financial risk of the deductible rested with the Society, from July of 1989 through the policy period ended December 1994.

LAWPRO also had a net retention above the policy's group deductible as follows:

- July 1, 1990 to December 31, 1991: LAWPRO is liable for \$50,000 of all individual losses in excess of \$200,000;
- January 1, 1992 to December 31, 1992: LAWPRO is liable for an aggregate of \$2,500,000 from individual losses incurred in excess of \$250,000 plus a further 10% of all losses above \$250,000 once the initial \$2,500,000 limit has been reached; and
- January 1, 1993 to December 31, 1994: LAWPRO is liable in each policy year for an aggregate of \$4,000,000 if incurred losses are above or exceed \$250,000 plus a further 10% of all losses in excess of \$250,000 once the initial \$4,000,000 limit has been reached.

It was decided, effective January 1, 1995, to eliminate the self-insured group deductible. Commencing January 1, 1995, 100% of the risk over the individual member deductibles is insured within LAWPRO. LAWPRO in turn reinsures a portion of its risk retention with third party Canadian licensed reinsurers. The policy limits for the period January 1, 2002 through December 31, 2002 are \$1 million per claim and \$2 million per member in aggregate.

2. Significant Accounting Policies

These combined financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The most significant accounting policies are as follows:

Members' Levies, Mandatory Insurance Program and Other Insurance Premiums

Members' levies are recorded when billed with the exception of those based on transactions. The transaction levy, first introduced in 1995, is recorded on a cash basis based on members' filings.

Other Insurance Premiums represent revenues generated from non-mandatory programs including title insurance and excess professional liability coverage. These transactions are recorded as revenue on an issued basis.

Investments

Investments in debt securities are recorded at amortized cost. Premiums and discounts from par value are amortized on a straight-line basis over the term to maturity. Investments in common or preferred shares are carried at cost. Gains and losses on investments are included in investment income when realized. Any losses in value of an investment which are considered other than temporary in nature are recognized in income.

Fixed assets

Fixed assets are presented at cost, net of accumulated depreciation and amortization. Depreciation and amortization are charged to expense on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	Term of lease
Furniture and equipment	3 to 5 years
Software	1 to 3 years

Claims related balances

a) Provision for unpaid claims and adjustment expenses

The insurance program covers claims made against insureds in the policy period.

The provision is determined using case-basis evaluations plus an amount for future development and delayed reporting and is an estimation of the ultimate discounted cost of all insurance claims to December 31, 2002. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

The provision for unpaid claims is presented net of a discount that reflects an estimation of the investment income that will be earned on funds until they are paid out in settlement of claims. Accordingly, the provision as recorded represents fair value. The estimation of the discount is based on anticipated investment rates of return and experience with payout patterns on similar types of claims.

b) Reinsurers' share of provisions for unpaid claims and adjustment expenses

Expected reinsurance recoveries on unpaid claims and adjustment expenses, are recognized as assets at the same time as, and using principles consistent with the Society's method for establishing the related liability.

c) Members' Deductibles

The insurance policy calls for insured members to pay deductibles which range from Nil up to \$25,000. Expected deductible recoveries on paid and unpaid claims, are recognized net of any required provision for uncollectible accounts, using principles consistent with the Fund's method for establishing the related claims liability.

Income taxes

LAWPRO uses the asset and liability method of accounting for income tax purposes. Under the asset and liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized.

The Fund is not subject to income or capital taxes because it is a not-for-profit corporation.

3. Measurement Uncertainty

The settlement of professional liability claims involves processes, the outcome of which is inherently uncertain. Consequently, the estimation of the ultimate settlement costs of claims made to date, that underlies the provision for unpaid claims and adjustment expenses, involves measurement uncertainty. The amounts are necessarily based on estimates of future trends in claim severity and other factors, which could vary as the claims are settled. Ultimate costs incurred will inevitably vary from current estimates, to some extent. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the provision for unpaid claims and adjustment expenses is adequate. Estimates are reviewed at least annually by an actuary and, as adjustments to these liabilities become necessary, they are reflected in current operations.

There is also measurement uncertainty inherent in the estimation of reinsurance recoveries and members' deductible recoveries. Management is satisfied that appropriate provisions have been made for potentially unrecoverable amounts and believes that any remaining exposure would prove immaterial to these financial statements.

4. Investment Information

The Fund and LAWPRO hold a diversified portfolio consisting of equities and securities with investment grades of "A" or better.

Estimated fair values

The book values and estimated fair values on investments as at December 31 were as follows:

(000's)	2002			2001		
	Book value	Estimated fair value	Yield %	Book value	Estimated fair value	Yield %
Debt Securities	258,629	264,878	4.2	255,049	260,123	4.3
Common Shares	32,542	28,454		25,421	26,033	
Preferred Shares	7,845	7,869		7,629	7,617	
	299,016	301,201		288,099	293,773	

The estimated fair values of debt securities, common and preferred shares are based on quoted market values. The book value of common shares noted above is net of a write-down of \$5,329 (2001 – \$4,169).

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 2002 is as follows:

(000's)	Within 1 year	1 to 5 years	Over 5 years	Book value
Debt securities	23,861	224,044	10,724	258,629
Percent of total	9%	87%	4%	

The average duration of the portfolio at December 31, 2002 is 2.4 years. Shares have no specific maturities.

5. Surplus

The Surplus of the Fund includes LAWPRO's capital and surplus. At December 31, 2002 the Statutory Capital, Surplus and Reserves of LAWPRO, as reported under insurance regulatory requirements, was \$81.0 million (2001 – \$72.3 million).

6. Claims and Adjustment Expenses

Reinsurance Ceded

To limit losses through the spreading of risks, the Fund and LAWPRO cede reinsurance with other insurers.

Net claims and adjustment expenses presented in the combined statement of revenue and expenses are net of reinsurance ceded in the amounts of \$19.9 million (2001 - \$12.3 million).

In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Fund and LAWPRO are liable for such amounts.

ERRORS AND OMISSIONS INSURANCE FUND

Claims Discounting

In accordance with generally accepted accounting principles, claims are reflected net of a discount which reflects the time value of money. Statutory financial statements for LAWPRO are shown on an undiscounted basis as required by the insurance regulator.

The impact of claims discounting is reflected as follows:

(000's)	2002		
	Undiscounted	Amount of Discount	Discounted
BALANCE SHEET			
Provision for unpaid claims and adjustment expenses	333,380	(24,860)	308,520
Reinsurers' share of provision for unpaid claims and adjustment expenses	146,009	(12,927)	133,082
STATEMENT OF REVENUE AND EXPENSES			
Net claims and adjustment expenses	39,646	(6,719)	32,927
(000's)	2001		
	Undiscounted	Amount of Discount	Discounted
BALANCE SHEET			
Provision for unpaid claims and adjustment expenses	342,929	(13,811)	329,118
Reinsurers' share of provision for unpaid claims and adjustment expenses	152,651	(8,623)	144,028
STATEMENT OF REVENUE AND EXPENSES			
Net claims and adjustment expenses	40,042	(145)	39,897

7. Members' Levies, Mandatory Insurance Program

Members' levies for the 2002 year include annual base levies of \$2,700 per member (2001 – \$2,800) and additional levies that are charged based on a member's claims history, status, and certain reported transaction volumes. In 2002, additional levies totalled \$26.4 million (2001 – \$26.8 million). The balances are shown net of the retrospective premium rating adjustment.

8. Premium Stabilization Fund

Revenues from transaction based levies are subject to variation in levels of legal transactions that, in part, reflect the changing economic climate. Any revenues from transaction and claims history levies that are in excess of premium levels agreed for the year, are held for future insurance purposes and applied as premiums under the insurance program in future years. Should a shortfall in these levies be experienced, the deficiency in funds shall be transferred from the Premium Stabilization Fund. The amount drawn down in 2002 was \$4.9 million (2001 – \$2.2 million).

Further, this fund also reflects retrospective premium rate adjustments under the insurance agreement between the Society and LAWPRO. The Premium Stabilization Fund was augmented by \$4.1 million in 2002 through this adjustment (2001 – \$2.9 million).

9. Transfer to Law Society General Fund

Investment income revenues of the stand-alone Fund which are surplus to its claims obligations are made available to the Society for general purposes.

10. Commitments

LAWPRO is committed to monthly lease payments in effect until January 31, 2008. Lease obligations are as follows:

	(000's)
2003	\$1,300
2004	\$1,362
2005	\$1,362
2006	\$1,362
2007	\$1,362
Thereafter	\$ 114

11. Comparative Financial Statements

Certain amounts in the comparative financial statements have been reclassified to better reflect the nature of the account.

LibraryCo Inc. is mandated to carry on the central management of the Ontario County and District Law Library system on a not-for-profit basis in accordance with the objectives of the *Blended System* framework for the purpose of developing and enhancing skills for the “competent lawyer” in Ontario.

STATEMENT OF REVENUES AND EXPENSES

With total revenues approximating \$6.7 million, LibraryCo Inc. had a small overall operating deficit of \$23,000 in 2002. This deficit was less than budgeted and was covered by an allocation from the Reserve Fund.

Revenues

The \$6.7 million total revenues in 2002 consisted of \$5.4 million in membership levies and grants from the Law Foundation of Ontario of \$1.3 million. The 2002 County Library levy collected by the Law Society was \$208 per member (2001: \$210) with membership numbers increasing.

Expenses

Expenses required for the operation of the 48 County and District law libraries make up \$6.4 million of the total \$6.7 million in expenses. These expenses are primarily for collections – traditional and electronic, personnel and operations. The mix of expenses is consistent with prior years. The balance of \$366,000 is for head office operations and administration of the library system.

BALANCE SHEET

At year ending 2002, LibraryCo Inc. has a General Fund deficit of \$22,000 and a capital asset fund of \$29,000. It also has a Reserve Fund of \$1.8 million restricted for County and District law library purposes as approved by the Board of Directors.

Auditors' Report

TO THE SHAREHOLDERS OF LIBRARYCO INC.:

We have audited the balance sheet of LIBRARYCO INC. as at December 31, 2002 and the statements of revenue and expenses, changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The 2001 financial statements were audited by another firm of chartered accountants.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
January 30, 2003

Balance Sheet

Stated in dollars

As at December 31

	2002	2001
CURRENT ASSETS		
Cash and short-term investments	1,469,229	1,826,316
Prepaid expenses	15,304	8,199
Goods and services tax receivable	83,821	2,787
Due from related party (note 3)	—	13,427
Due from Law Foundation of Ontario	322,500	—
	1,890,854	1,850,729
CAPITAL ASSETS (note 4)	29,601	39,346
Total Assets	1,920,455	1,890,075
LIABILITIES, SHARE CAPITAL, AND FUND BALANCES		
Accounts payable and accrued liabilities (note 3)	111,848	58,267
SHARE CAPITAL AND FUND BALANCES		
Share capital (note 5)	200	200
General fund	(22,479)	(33,774)
Invested in capital assets fund	29,601	39,346
Reserve fund	1,801,285	1,826,036
Total Share Capital and Fund Balances	1,808,607	1,831,808
Total Liabilities, Share Capital and Fund Balances	1,920,455	1,890,075

See accompanying notes

On behalf of the Board of Directors



Chair – Board of Directors



Chair – Finance Committee

Statement of Revenues and Expenses

Stated in dollars

For the year ended December 31

	2002	2001
REVENUES		
Law Society of Upper Canada grant	5,408,000	5,250,000
Law Foundation of Ontario grant	1,290,000	1,316,000
Interest income	25,249	43,424
Total revenues	6,723,249	6,609,424
EXPENSES		
Head office/administration		
Salaries and benefits	169,476	103,533
Office and occupancy	53,388	37,256
Professional fees	76,585	124,975
Other (note 6)	66,328	68,607
Total head office/administration expenses	365,777	334,371
County and District Law Libraries – centralized purchases		
Electronic products and services	1,090,355	1,080,128
Hardware/software upgrades	154,645	143,267
Ergonomic furnishings	45,000	–
Insurance and group benefits	209,738	43,818
Other (note 7)	144,503	150,254
	1,644,241	1,417,467
County and District Law Libraries – grants (note 8)	4,736,432	4,823,153
Total County and District Law Libraries expenses	6,380,673	6,240,620
Total expenses	6,746,450	6,574,991
Excess of (expenses over revenue)		
revenue over expenses for the year	(23,201)	34,433

See accompanying notes

Statement of Changes in Fund Balances

Stated in dollars

For the year ended December 31

	2002				2001
	General Fund	Invested in Capital Assets Fund	Reserve Fund	Total	Total
Balance, beginning of year	(33,774)	39,346	1,826,036	1,831,608	–
Contribution from the Law Society of Upper Canada	–	–	–	–	1,797,175
Excess of (expenses over revenue) revenue over expenses	(38,705)	(9,745)	25,249	(23,201)	34,433
Inter-fund transfer	50,000	–	(50,000)	–	–
Balance, end of year	(22,479)	29,601	1,801,285	1,808,407	1,831,608

See accompanying notes

Financial Statements

Financial Statements

Statement of Cash Flows

Stated in dollars

For the year ended December 31

	2002	2001
OPERATING ACTIVITIES		
Excess of (expenses over revenues) revenues over expenses	(23,201)	34,433
Item not affecting cash:		
Amortization of capital assets	9,745	5,481
Net change in non-cash operating working capital items:		
Prepaid expenses	(7,105)	(8,199)
Goods and Services Tax receivable	(81,034)	(2,787)
Due from Law Foundation of Ontario	(322,500)	–
Accounts payable and accrued liabilities	53,581	58,267
Total operating activities	(370,514)	87,195
FINANCING ACTIVITIES		
Advances to related party	13,427	(13,427)
Contribution from the Law Society of Upper Canada	–	1,797,175
Proceeds from issuance of share capital	–	200
Total financing activities	13,427	1,783,948
INVESTING ACTIVITY		
Purchase of capital assets	–	(44,827)
(Decrease) increase in cash	(357,087)	1,826,316
Cash and short-term investments, beginning of year	1,826,316	–
Cash and short-term investments, end of year	1,469,229	1,826,316

See accompanying notes

Notes to Financial Statements

For the year ended December 31, 2002

(Stated in whole dollars except where indicated)

1. General

LibraryCo Inc. (the "organization") is a wholly owned, not-for-profit subsidiary of the Law Society of Upper Canada, incorporated on April 12, 2001 under the *Ontario Business Corporations Act*. The Law Society of Upper Canada holds all common shares of the organization and the County and District Law Presidents' Association holds all special shares.

The purpose of the organization is to administer funding from the members of the Law Society of Upper Canada and develop policies, priorities, guidelines and standards for the delivery of county law library services across Ontario including the distribution of funds to the various County and District Law Libraries.

As a not-for-profit organization, LibraryCo Inc. is not subject to federal and provincial income and capital taxes.

2. Significant Accounting Policies

Basis of presentation

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations published by the Canadian Institute of Chartered Accountants, using the restricted fund method of reporting contributions.

The General Fund accounts for the delivery, management and administration of library services. The Reserve Fund is restricted for specific purposes as periodically determined and approved by the Board of Directors. The Invested in Capital Assets Fund records the capital assets of the organization.

Cash and short-term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the organization's investment policy. Short-term investments are stated at the lower of cost and market value. Investment income, except income earned on General Fund resources, is retained in and reported by the Reserve Fund.

Capital assets

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a declining balance basis as follows:

Furniture and fixtures	20%
Computer equipment	30%
Leasehold improvements	Straight-line over term of lease

In the year of acquisition, half the normal amortization is provided.

Computer software is expensed in the year of acquisition.

Financial Statements

Revenue recognition

Restricted contributions related to the general operations are recognized as revenue of the General Fund in the year in which the related expenses are incurred. All other restricted contributions are recognized as revenue of the appropriate restricted fund.

Collections

The organization owns a collection of legal research and reference material. The cost of additions to the collection is expensed as incurred.

Financial instruments

The estimated fair value of cash and short-term investments, accounts receivable, prepaid expenses, accounts payable and accrued liabilities approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments.

Measurement uncertainty

The preparation of the financial statements in accordance with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Related Party Transactions and Balances

The amounts due from (to) the Law Society of Upper Canada, a shareholder of the organization, have no stated rate of interest nor any specific repayment terms.

	2002	2001
<i>Transactions</i>		
Purchases from the Law Society of Upper Canada	\$ 84,853	\$ 64,638
<i>Balances</i>		
Amount due from the Law Society of Upper Canada	—	\$ 13,427
Amount due to the Law Society of Upper Canada (included in accounts payable and accrued liabilities)	\$ 82,883	—

Included in purchases from the Law Society of Upper Canada are costs associated with cataloguing of collections, CLE and Bar Admission Course materials for the County & District Law Libraries and catering for Board of Directors' meetings.

4. Capital Assets

	2002		2001
	Cost	Accumulated amortization	Net
Furniture and fixtures	\$15,938	\$ 4,463	\$11,475
Computer equipment	19,962	8,085	11,877
Leasehold improvements	8,927	2,678	6,249
	\$44,827	\$15,226	\$29,601
			\$39,346

5. Share Capital

Authorized

Unlimited number of Common shares

Unlimited number of Special shares, with right to elect one director

Issued	2002	2001
100 Common shares	\$100	\$100
100 Special shares	100	100
	\$200	\$200

At incorporation, the organization issued 100 Common shares to the Law Society of Upper Canada and 100 Special shares to the County & District Law Presidents' Association for cash consideration of \$100 each.

6. Other Expenses – Head Office/Administration

Included in this expense are costs associated with staff travel, Board of Directors' meetings, accounting and audit fees, and other miscellaneous items.

7. Other Expenses – County and District Law Libraries – Centralized Purchases

Included in this expense are costs associated with publications, cataloguing, committee meetings, special needs, and other miscellaneous items.

8. County and District Law Library Grants

These grants represent the quarterly distribution of funds to the 48 County and District Law Libraries. These grants are distributed in accordance with policies and procedures as established by the organization's Board of Directors.

In order to satisfy themselves as to the proper use of these funds, management has undertaken the following procedures:

Periodic visits, by the organization's staff, to the individual libraries to review financial information, assess collections, and to determine services being provided;

Submission of annual budgets by each individual library and review of these budgets by the organization's staff;

Submission of periodic financial information by each individual library and review of this information by the organization's staff;

Annual conference with the organization's staff and staff of all individual libraries.

Financial Statements

The following individual library grants were distributed by the organization during 2002 and 2001:

	2002	2001
Algoma District Law Association	\$82,372	\$81,856
Brant Law Association	74,136	73,694
Bruce Law Association	55,696	61,446
County of Carleton Law Association	399,748	393,767
Cochrane Law Association	90,452	89,997
Dufferin Law Association	52,572	58,122
Durham County Law Association	111,824	111,302
Elgin Law Association	60,136	66,514
Essex Law Association	168,036	167,741
Frontenac Law Association	73,992	73,511
Grey Law Association	55,996	61,863
Haldimand Law Association	51,148	56,038
Halton Law Association	109,376	108,007
Hamilton Law Association	272,968	270,044
Hastings Law Association	76,064	75,638
Huron Law Association	54,564	60,256
Kenora Law Association	62,884	62,481
Kent Law Association	55,392	61,109
Lambton County Law Association	58,352	64,298
County of Lanark Law Association	54,312	59,987
Leeds & Grenville Law Association	59,032	65,152
Lennox & Addington Law Association	50,828	56,035
Lincoln Law Association	130,504	128,129
Manitoulin Law Association	5,400	6,090
Metropolitan Toronto Lawyers Association	413,216	412,098
Middlesex Law Association	232,692	230,851
Muskoka Law Association	53,204	57,271
Nipissing Law Association	69,328	68,880
Norfolk Law Association	54,196	59,853
Northumberland County Law Association	54,760	60,473
Oxford Law Association	55,368	61,297
Parry Sound Law Association	43,060	47,482
Peel Law Association	172,000	170,670
County of Perth Law Association	47,476	52,421
Peterborough Law Association	82,460	82,140
Prescott & Russell Law Association	49,308	54,503
Rainy River Law Association	51,916	57,322
Renfrew County Law Association	77,536	77,194
County of Simcoe Law Association	118,156	116,425
Stormont, Dundas & Glengarry Law Association	56,300	62,047
Sudbury District Law Association	122,344	121,904
Temiskaming Law Association	54,360	59,884
Thunder Bay Law Association	110,880	110,360
Victoria Haliburton Law Association	71,940	71,501
Waterloo Law Association	174,476	172,302
Welland Law Association	91,396	90,687
Wellington Law Association	91,952	90,592
York Region Law Association	122,324	121,919
	\$4,736,432	\$4,823,153

9. Lease Commitments

The organization has entered into a lease arrangement for its offices. The lease term is five years, expiring April 30, 2006 and requires annual payments of \$10,992 plus operating costs for the first three years and \$13,200 plus operating costs for the last two years.

10. Reclassifications - prior year's balances

Certain of the prior year's balances have been reclassified to conform to the current year's presentation.



LET RIGHT PREVAIL

The Law Society of
Upper Canada

Barreau
du Haut-Canada

THE
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